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FROM UNDER SECRETARY ROGERS

E.O.11652: GDS

TAGS: ENRG, EFIN, CIEC, ECON, OECD

SUBJECT: IRAN AND THE OPEC PRICE INCREASE

1. SUMMARY: GREENSPAN, BOSWORTH AND I DISCUSSED OPEC PRICE INCREASE AT LENGTH WITH YEGANEH AND AMOUZEGAR.

2. I OPENED BY SAYING THAT THERE WERE SEVERAL DIMENSIONS OF THE POSSIBLE PRICE INCREASE WHICH WE WANTED TO TOUCH ON. FIRST, THE ECONOMIC. GREENSPAN ANALYZED STATE OF RECOVERY IN U.S. WE THEN EXAMINED THE EFFECT OF PRICE INCREASE ON ECONOMIC PROSPECTS OF THE INDUSTRIAL DEMOCRACIES IN GENERAL AND ON THE DIFFICULT CASES OF THE U.K., ITALY, PORTUGAL AND SPAIN. WE EMPHASIZED THE POLITICAL SIGNIFICANCE OF A PRICE INCREASE, THE IMPORTANCE OF A COHESIVE EFFORT BY THESE COUNTRIES TO UNDERTAKE INTERNAL ADJUSTMENT, AND THE PROSPECTS IF THE EXISTING DEMOCRATIC STRUCTURES IN EACH WERE SEEN TO FAIL. WE MADE CLEAR THAT, ALTHOUGH THE ABSENCE OF A PRICE INCREASE WOULD NOT SOLVE THE PROBLEMS IN THESE COUNTRIES, A PRICE INCREASE WOULD MAKE THOSE PROBLEMS EVER SO MUCH MORE ACUTE AND COULD, IN FACT, BE DECISIVE. WE ALSO MADE CLEAR THAT THE SACRIFICE WOULD NOT BE LIMITED TO OPEC. THE COUNTRIES EXPERIENCING MONETARY DIFFICULTIES WERE BEING ASKED BY THE FUND TO INSTITUTE SEVERE ADJUSTMENT PROGRAMS. THE U.S., FRG AND OTHERS WOULD BE SUPPORTING THE FUND-ARRANGED PROGRAMS.

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PAGE 02 OECD P 34689 231604Z

3. GREENSPAN THEN EXPLAINED THAT THE LAST PRICE

INCREASE HAD NOT YET BEEN FULLY ABSORBED BY THE INTERNATIONAL FINANCIAL SYSTEM. A NUMBER OF COUNTRIES, BOTH DEVELOPED AND DEVELOPING, HAD ACCUMULATED HEAVY DEBT WHICH THEY WERE HAVING TROUBLE SERVICING. A FURTHER INCREASE NOW WOULD AGGRAVATE THOSE PAYMENTS PROBLEMS.

4. WE THEN SAID A WORD ABOUT POLITICS: THE FACT THAT THE NEW ADMINISTRATION WILL FACE SOME TOUGH DOMESTIC ECONOMIC POLICY DECISIONS EARLY ON, AND THE DISTURBING EFFECT ON THOSE DECISIONS OF A PRICE INCREASE, COUPLED WITH THE ADDITIONAL POLITICAL CONSIDERATION OF THE EFFECT OF AN OPEC PRICE INCREASE ON PUBLIC PERCEPTIONS IN THE U.S. ABOUT THE OPEC MEMBERS AT THE VERY TIME THE NEW ADMINISTRATION IS TRYING TO CHART ITS BASIC FOREIGN POLICY.

5. YEGANEH AND AMOUZEGAR TOOK THIS IN WITH EQUANIMITY. THEY RESTATED FOR THE RECORD IRAN'S GENERAL POSITION THAT OIL PRICES HAD GOT OUT OF LINE WITH THE PRICES OF ALTERNATIVE ENERGY SUPPLIES OVER THE PAST TWO YEARS. THEY EMPHASIZED THEIR VIEW THAT THE INCREASE IN OIL PRICES WOULD ONLY COST THE EDDC'S A COUPLE BILLION, A MERE NOTHING COMPARED WITH THEIR EXISTING DEBT OBLIGATIONS. THEY SAW NO INDICATION IN THE UNITED STATES OF ANY TREND AWAY FROM OIL TO ALTERNATIVE SOURCES. AND THEY WORRIED ABOUT THE INCREASE IN PRICE OF THEIR IMPORTS -- THOUGH AS LITTLE WAS SAID ON THIS QUESTION AS WAS RESPECTABLE. I DID NOT READ ANY OF THIS AS IRANIAN CAPITULATION.
TURNER

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